

Fundamental Flash:

China Reports No New Local Infections

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It has been a turbulent week for markets as pandemic fears arising from Covid-19 and the collapse in oil prices sparked a fierce sell-off in risk assets. Benchmark gauges like the S&P 500 plunged to intraday lows before recouping back some losses.

For investors this can be an unnerving period with such fierce volatility exacerbated by the presence of algo-traders. The advent of social media and its legitimacy as a news source has also created echo chambers that can amplify further market noise.

As we cut through the clutter and focus on fundamentals, here are a few key takeaways that we'd like to share with our investors

It'll get better with time

A recovery won't happen overnight and we will likely see infection rates continue to climb globally. But we have seen the situation stabilise in China where the coronavirus was first reported. Just recently, the country also hit a new milestone in its fight against the virus and reported no new local infections domestically. Business activity is beginning to normalise in the region as production picks up and supply chains are restored.

In terms of policy action, we are seeing the right signals by global central banks and governments in containing the outbreak and cushioning the economic blow from the virus. The US Federal Reserve has cut interest rates to zero and launched a massive \$700 billion QE program to shelter the economy from the effects of the virus.

With abundant liquidity in the system due to the raft of stimulus measures, looser monetary conditions could drive a stronger recovery in the 2H'20 once the Covid-19 outbreak is effectively contained. Thus, an important key indicator to monitor include infection levels to find the peak of new cases.

Sticking with quality

Since the start of the Covid-19 outbreak in China, we have been steadily raising cash levels as a defensive measure. In such a market environment, it is important to stay prudent and have sufficient cash buffer to not only protect downside, but also be ready to capture a rebound in markets when it happens.

From a technical perspective markets have not yet fully capitulated. and we are closely monitoring sentiment indicators if they have reached bearish levels. Our equity portfolios continue to be tilted towards secular growth stocks with strong balance sheets that would be able to weather such an environment. Highly indebted companies may come under significant stress to service borrowings.

For our fixed income portfolios, the strategy is to similarly de-risk by reducing our high-yield exposure and raise cash levels. We have also exited our exposure in Indonesia government bonds amidst a rupiah rout..

Stay buckled

The effects of pandemic on stock markets may be transient (Read our Fund Manager's Journal: [Seeing Beyond the Coronavirus Scare](#)), though markets are likely going to stay volatile with geopolitical risks very much at the forefront. The upcoming US Presidential election in November will be closely watched by markets especially with Trump entering the campaigning period with a weaker economy at hand.

Stick to the plan

One of the most important things an investor can do in such an environment is to ensure that their portfolios are reflective of their risk-level and objectives.

If you have a shorter investment horizon, your portfolio should be at a lower level of risk with higher exposure to more defensive asset classes like fixed income. This helps insulate your portfolio with its more modest drawdowns in periods of market volatility.

Conversely if you have a longer investment horizon, the best course of action is to likely stay put and remain disciplined in your investment plan. Consider rebalancing your portfolio to correct any portfolio drifts to ensure your asset allocation matches your target allocation.

Investors who remain disciplined in their approach by investing consistently through dollar-cost averaging are proven to fare better overall compared to their peers that react impulsively.

#StaySafe
#GrowWithUs

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